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Press Release #1

TORONTO, March 7, 1983 "A separate, independent personal income tax (PIT) system is not in the immediate interests of the Province of Ontario. There are simply too many alternative options yet open to the province to justify such a move at this time." This is the conclusion of an Ontario Economic Council position paper released today. (A Separate Personal Income Tax for Ontario: An Ontario Economic Council Position Paper).

The study, drafted by Council Chairman Thomas J. Courchene, and unanimously endorsed by the members of the Ontario Economic Council, was prepared in response to a Reference from Ontario Treasurer, Frank Miller. The central thrust of the Reference was:

"What would be the economic implications if the Province of Ontario were to withdraw from the present Tax Collection Agreement with the federal government and institute its own personal income tax collection system?"

In addressing this Reference, the Council position paper focuses on a wide range of issues: the history of the PIT, Quebec's experience with its own PIT; the role of tax credits as a source of provincial flexibility within the PIT; the probable impact of a separate Ontario PIT on such things as savings, investment; and the aid to venture capital enterprises; the implications for provincial stabilization policies; the income distribution implications; the implications for federal-provincial economic relations; the net increase in administrative and compliance costs; and the political implications of a separate PIT. The study finds that while there are indeed some benefits from Ontario going its own way on the PIT front, many of these benefits can be achieved in other, less costly, ways.

- o However, the Council recognizes that the Tax Collection Agreements, which have served the nation so well in the past, have recently been undergoing serious strain. In particular, some provinces, Ontario among them, have voiced concern with the recent Ottawa view that it can unilaterally alter the shared-PIT tax structure and expect any such changes to be automatically binding on the provincial component of the shared tax.

"When the provinces sign these five-year (Tax Collection) Agreements, surely there must be some presumption that the structure of the tax systems cannot be altered dramatically and unilaterally by the federal government."

- o The Council fears that if Ottawa ignores the provinces' genuine concerns and continues to act as it has in the recent past, it may well preside over the unravelling of the Tax Collection Agreements and the rise of a system of provincial PITs.
- o The Council points out that the actions of the province have not been entirely exemplary either. Specifically, some of the provinces are moving in the direction of mounting discriminatory or 'province-building' tax credits within their portion of the personal income tax. The Council takes a dim view of these measures that are designed to fragment Canada's internal common market.

"We believe that discriminatory or beggar-thy-neighbour actions on the part of the provinces should be decried whether such actions occur within the tax system or outside of it."

- o Thus, the Council concludes that both the provinces and the federal government have to accept part of the blame for the current impasse and also have to compromise somewhat in order to rekindle the spirit of co-operative federalism that was once the hallmark of the Canadian Federation.

"In our view, this requires that the federal government either allow the provinces to have a greater voice in the determination of the shared tax structure and/or allow them more flexibility to offset those features of the federal PIT that they find deleterious to their own interests."

"For their part, the provinces have to take some important steps toward ensuring that the internal common market will not be fragmented by provincial actions."

The Council's preference is for a federal-provincial agreement to preserve the free flow of goods, services, labour, and capital across provincial boundaries. In drawing these conclusions, the Council is explicitly recognizing that in addition to the federal and provincial governments, there is an important third party whose interest must also be taken into account...namely individual Ontarians and Canadians.

Their interests will also be enhanced by a more co-operative approach to the jointly-shared PIT system and by the preservation of the Canadian economic union.

Recommendations

- o That the Province of Ontario not move toward a separate PIT at this time. "It is not the first-best strategy to adopt in terms of dealing with the many concerns the province may have about the shared PIT."
- o That the federal government and the provinces recognize the serious nature of the course of action that they have been conducting over the past few years in terms of the implications for tax harmony and the preservation of the internal economic union and that they work together to accommodate their interests within the framework of a modified tax collection agreement.

The Council recommends that the following items are deserving of further exploration.

- o A Federal-Provincial Tax Structure Committee which would allow joint input into the determination of the common personal income tax base.
- o A move toward a 'tax on base' as contrasted to the present 'tax on tax' system. (See Chapter 1, Table 4 and Chapter 12 Alternatives to a separate PIT).
- o An extension of the tax credit system to provide the provinces with more flexibility in allowing them to implement non-discriminatory measures within their portion of the joint PIT.
- o The establishment of a 'code of economic conduct' which will ensure that the internal economic union is preserved not only within the tax system but as well across the entire fiscal and regulatory front.
- o In terms of the immediate future, the Council notes that the federal government will presently introduce legislation with respect to the personal income tax treatment of inflation. The Council recommends that Ontario become as involved as the process will allow in the ongoing restructuring of both the personal and corporate income tax systems.

"It represents an opportunity for the province to impress upon the federal authorities its particular concerns relating to the structure and the evolution of the personal income taxation system in Canada."

The Council points out that it also represents a unique opportunity for the Government of Canada to involve the provinces in the restructuring of what, after all, is also their own tax system and in this way to begin the process of restoring the spirit of co-operation and consultation that was once associated with the tax collection agreements.

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A Separate Personal Income Tax for Ontario, Ontario Economic Council Position Paper, 167 pages, price \$3.00, is available at the following outlets:

The Ontario Government Bookstore, 880 Bay Street, Toronto, to those shopping in person. Out-of-town customers may write: Publications Section, Fifth Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8, or telephone 965-6015 (toll-free long distance, 1-800-268-7540; in northwestern Ontario, 0-Zenith 67200). A cheque or money order, payable to the Treasurer of Ontario, must accompany all mail orders.